

Message Text

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ACTION EUR-12

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TAGS: EGEN, SP

SUBJECT: VIEWS ON CURRENT ECONOMIC PROBLEMS BY A LEADING
SPANISH ECONOMIST

1. INFLATION AND THE BALANCE OF PAYMENTS DEFICIT ARE THE
TWO MOST CRUCIAL ECONOMIC PROBLEMS NOW FACING SPAIN.
ACCORDING TO WELL REGARDED SPANISH ECONOMIST ENRIQUE
FUENTES WUINTANA, AND ONE OF THE KEYS TO RESOLVING THESE
DIFFICULTIES IS TO BRING GOVERNMENT SECTOR UNDER TIGHTER
CONTROL, REDUCING GOVERNMENT SPENDING AND CREDITS AND
INCREASING TAX REVENUE, INTERVIEWED BY SPANISH PRESS.
FUENTES WHO IS ONE OF SEVERAL WHOSE VIEWS ARE SAID TO HAVE
BEEN SOUGHT BY THE GOS, CITED UNEMPLOYMENT AND INEQUALITY
OF INCOME DISTRIBUTION AS OTHER IMPORTANT
PROBLEMS BUT SECONDARY TO INFLATION AND BALANCE OF
PAYMENTS AND MORE MEDIUM TERM THAN URGENT.

2. FUENTES SAID SOME SORT OF SOCIAL PACT WAS NEEDED TO
HALT INFLATION BUT THAT THIS COULD NOT BE DONE THROUGH
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EXISTING INSTITUTIONS BECAUSE THEY WEREN'T SUFFICIENTLY

REPRESENTATIVE. HE STRESSED NEGATIVE ROLE OF PUBLIC SECTOR WHICH HAD GROWN EXCESSIVELY BOTH IN LEVEL OF EXPENDITURES AND IN AMOUNT OF OFFICIAL CREDIT IT WAS PROVIDING. THIS HAD LED TO NEED TO RESTRICT PRIVATE SECTOR CREDIT TO ACHIEVE STABILIZATION, BUT THIS HE FELT WAS IMPOSSIBLE, SO HE PREDICTED CONTINUED INFLATION FOR REST OF THIS YEAR WITH RATE ACCELERATING AS OF AUGUST.

3. FUENTES SAID FAILURE TO ELIMINATE PRESENT CAUSES OF INFLATION AND "ECONOMIC TENSION" WOULD SURELY NECESSITATE A DEVALUATION BUT THAT TO DEVALUE WITHOUT DEALING WITH ROOT CAUSES OF INFLATION WOULD SOLVE NOTHING. HE TERMED PRESENT ECONOMIC SITUATION GRAVE AND EXPRESSED DOUBT THAT THIS WAS WIDELY ENOUGH RECOGNIZED. HE SAID SITUATION SHOULD NOT TAKE A BACK SEAT TO CURRENT POLITICAL PROBLEMS. HE FELT ALL POLITICAL GROUPINGS SHOULD HAVE AGREED ON THE NEED TO DEAL WITH ECONOMIC PROBLEMS NOW RATHER THAN POSTPONE THEM UNTIL THE POLITICAL PICTURE HAD BEEN BETTER DEFINED.

4. EMBASSY COMMENT: FUENTES IS CLEARLY ON THE MARK IN CITING INFLATION AND THE BALANCE OF PAYMENTS SITUATION AS THE TWO MOST SERIOUS AND URGENT ECONOMIC PROBLEMS FOR SPAIN, AND HIS CRITICISM OF EXCESSIVE GOVERNMENT EXPENDITURES AND CREDIT FACILITIES AND OF INADEQUATE REVENUES IS EQUALLY JUSTIFIED. HE HAS CITED SOME OF THE BASIC, STRUCTURAL ECONOMIC PROBLEMS NOW FACING SPAIN, AND PUT THE ISSUE OF DEVALUATION IN A PROPER PERSPECTIVE. HOWEVER, HE IS SWIMMING AGAINST THE TIDE IN CALLING FOR ALL POLITICAL GROUPINGS TO AGREE NOW TO THE MEASURES NEEDED TO DEAL WITH THE MOST BASIC PROBLEMS.

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